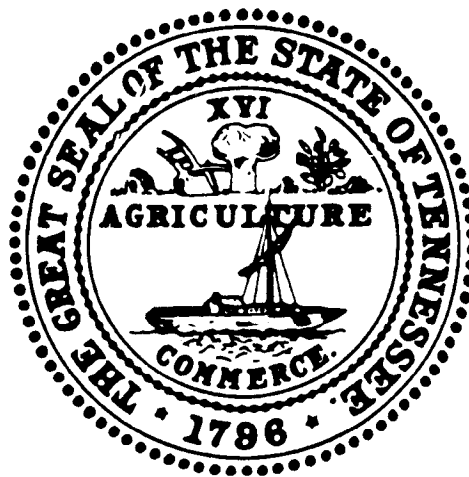


AUDIT REPORT

Tennessee Housing Development Agency

For the Year Ended
June 30, 1998



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY

Department of Audit
Division of State Audit



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State Capitol
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John G. Morgan
Comptroller

May 11, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
Board of Directors
Tennessee Housing Development Agency
and
Mr. W. Jeff Reynolds, Executive Director
Tennessee Housing Development Agency
404 James Robertson Parkway, Suite 1114
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Housing Development Agency for the year ended June 30, 1998. You will note from the independent auditor's report that a qualified opinion was given on the fairness of the presentation of the financial statements. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/ms
98/101

State of Tennessee

A u d i t H i g h l i g h t s

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Tennessee Housing Development Agency
For the Year Ended June 30, 1998

AUDIT OBJECTIVES

The objectives of the audit were to consider the agency's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is qualified. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter.

Audit Report
Tennessee Housing Development Agency
For the Year Ended June 30, 1998

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTION		1
Post-Audit Authority		1
Legislative History		1
Organization		2
AUDIT SCOPE		3
OBJECTIVES OF THE AUDIT		3
PRIOR AUDIT FINDING		5
Resolved Audit Finding		5
OBSERVATIONS AND COMMENTS		5
RESULTS OF THE AUDIT		6
Audit Conclusions		6
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		7
FINANCIAL STATEMENTS		
Independent Auditor's Report		9
Balance Sheets	A	11
Statements of Revenues, Expenses, and Changes in Retained Earnings	B	12
Statements of Cash Flows	C	13
Notes to the Financial Statements		14

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
SUPPLEMENTARY INFORMATION		
Supplementary Balance Sheets	D	29
Supplementary Statements of Revenues, Expenses, and Changes in Retained Earnings	E	30
Supplementary Statements of Cash Flows	F	31
Supplementary Balance Sheet—Operating Group	G	32
Supplementary Balance Sheet—Mortgage Finance Program	H	33

Tennessee Housing Development Agency For the Year Ended June 30, 1998

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Housing Development Agency. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

LEGISLATIVE HISTORY

The Tennessee Housing Development Agency is a corporate governmental agency of the State of Tennessee and was established in 1973 under the provisions of Title 13, Chapter 23, *Tennessee Code Annotated*. The agency was created to increase available funds for the financing of residential housing for low- and moderate-income households. It is authorized to issue bonds and notes to provide such financing. These bonds and notes are payable solely from the agency’s revenues and assets and are not general obligations of the state or of any of the state’s political subdivisions.

The agency’s affairs are directed by a 19-member board of directors and are administered by an executive director. Directors of the agency serving *ex officio* are the State Treasurer, the Comptroller of the Treasury, the Commissioner of Finance and Administration, the Secretary of State, and a staff assistant to the Governor. Of the remaining 14 members, 12 are appointed by the Governor. The Speaker of the House of Representatives and the Speaker of the Senate each appoint one member. Of the 12 members appointed by the Governor, nine are required to be representatives of the housing, home-building, real estate, and mortgage-lending professions. The Governor appoints one additional member from each of the three grand divisions of the state; these three are representative of the public at large.

ORGANIZATION

The agency comprises eleven divisions, each of which is managed by a division director. The executive; research, planning, and technical services; multi-family and special programs; and internal audit divisions report directly to the executive director. The production divisions—community programs, mortgage administration, homeownership mortgage, and housing management—report to the deputy executive director. The financial and administrative support divisions—finance, management information systems, and fiscal administration—report to the chief financial officer.

Executive Division - This division is responsible for program development, legal affairs, public relations, and personnel.

Research, Planning, and Technical Services Division - This division provides technical assistance to agencies, firms, and individuals; works with other agencies to coordinate community development activities; and conducts and oversees research on housing issues.

Multi-family and Special Programs Division - This division administers the Low Income Housing Tax Credit Program for developers of rental properties and allocates multi-family bond authority to local issuers for a specific development.

Internal Audit Division - This division performs internal audits of all agency programs, grants, and servicing institutions and is responsible for long-term compliance of the HOUSE, HOME, and Tax Credit programs.

Community Programs Division - This division is responsible for the federal HOME Investment Partnerships Program and the state Housing Opportunities Using State Encouragement (HOUSE) program which provide funds for locally designed housing efforts.

Mortgage Administration Division - This division oversees the collection of loans for the agency. The division provides full in-house servicing of multi-family loans. Single-family loans are serviced by approved servicing agents under the direction of the mortgage administration division.

Homeownership Mortgage Division - This division provides the link between funds available for single-family home loans and the individual prospective homeowners through the development of a statewide network of participating lenders and the underwriting of loans for qualified applicants.

Housing Management Division - This division administers the Section 8 Housing Assistance Program. The division's functions include administering housing assistance payment contracts, and monitoring and auditing housing developments and subcontractors.

Finance Division - This division is responsible for cash management of the agency. This division's major functions are debt management and investment of funds.

Management Information Systems Division - This division is responsible for developing, implementing, and maintaining the agency's computer systems.

Fiscal Administration Division - This division is responsible for bond, state, and federal accounting, financial reporting, and general administrative areas such as purchasing and fiscal budget planning.

The agency presents a financing proposal each fiscal year for the State Funding Board's approval. The bond finance committee of the Tennessee Housing Development Agency's board of directors sells bonds and notes on behalf of the agency.

An organization chart for the Tennessee Housing Development Agency is on the following page.

AUDIT SCOPE

The audit was limited to the period July 1, 1997, through June 30, 1998, and was conducted in accordance with generally accepted government auditing standards except as indicated in the independent auditor's report. Financial statements are presented for the year ended June 30, 1998, and for comparative purposes, the year ended June 30, 1997. The Tennessee Housing Development Agency has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

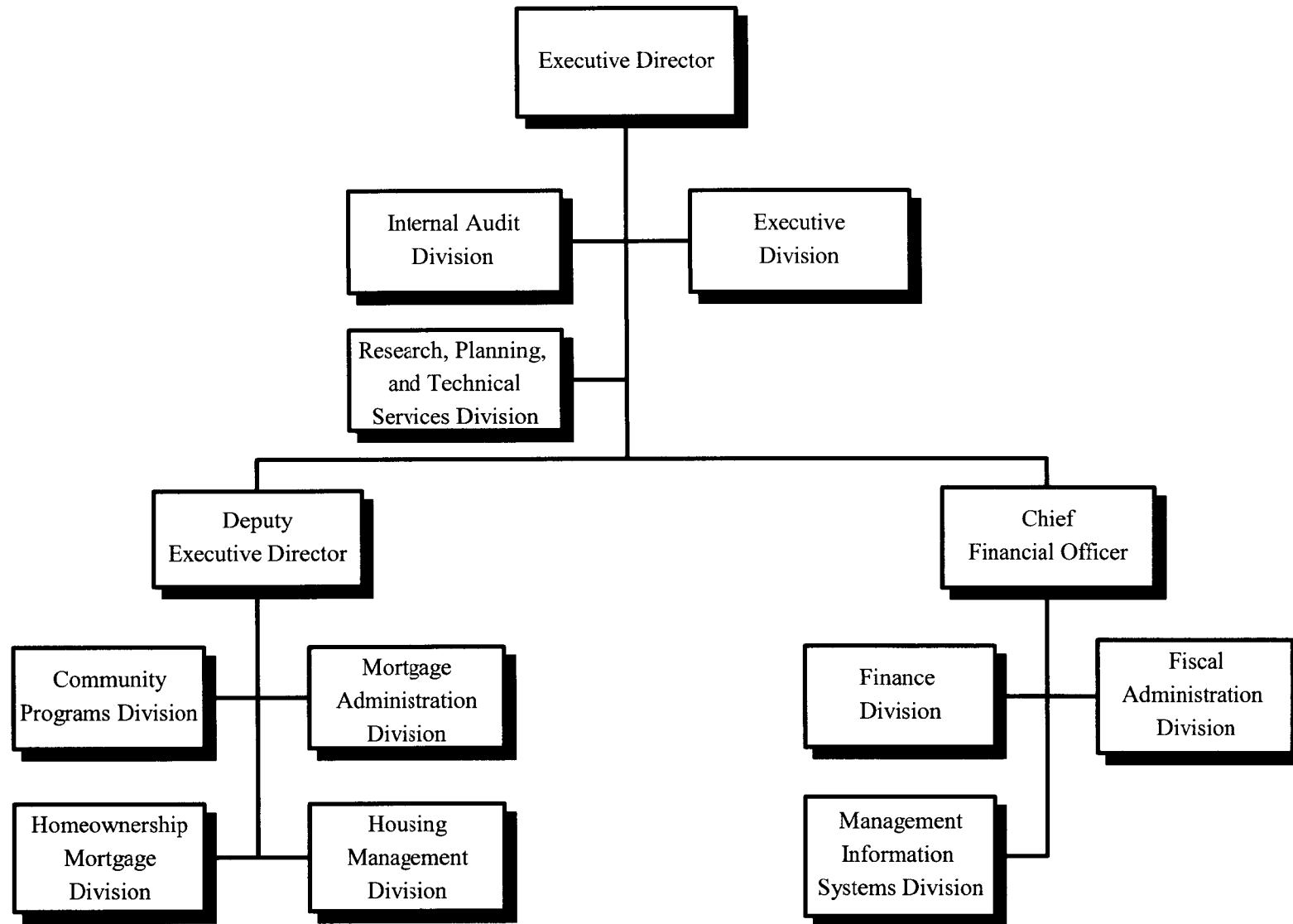
The audit covered allotment code 316.20.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the agency's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

Tennessee Housing Development Agency Organizational Chart



Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control used in administering federal financial assistance programs. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.

PRIOR AUDIT FINDING

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendation in the prior audit report. The Tennessee Housing Development Agency filed its report with the Department of Audit on October 30, 1998. A follow-up of the prior audit finding was conducted as part of the current audit.

RESOLVED AUDIT FINDING

The current audit disclosed that the Tennessee Housing Development Agency has corrected the previous audit finding concerning the computer system for Section 8.

OBSERVATIONS AND COMMENTS

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ending June 30, 1998, the Tennessee Housing Development Agency filed its compliance report and implementation plan on July 8, 1998.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or national origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were

filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor has not designated a new monitoring agency for the executive branch.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the Tennessee Housing Development Agency's financial statements for the year ended June 30, 1998, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our audit tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered a qualified opinion on the agency's financial statements. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the agency's disclosures with respect to the year 2000 issue made in Note 11.



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**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

December 9, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the financial statements of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of and for the year ended June 30, 1998, and have issued our report thereon dated December 9, 1998. Our report was qualified. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the agency's disclosures with respect to the year 2000 issue made in Note 11.

Except as discussed in the preceding paragraph, we conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the agency's financial statements are free of material misstatement, we performed tests of the agency's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

The Honorable W. R. Snodgrass
December 9, 1998
Page Two

However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note other less significant instances of noncompliance, which we have reported to the agency's management in a separate letter.

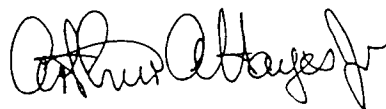
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted certain matters involving the internal control over financial reporting, which we have reported to the agency's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record, and its distribution is not limited.

Sincerely,

A handwritten signature in dark ink, appearing to read "Arthur A. Hayes Jr.", with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/ms



**STATE OF TENNESSEE
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Independent Auditor's Report

December 9, 1998

The Honorable W. R. Snodgrass
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Snodgrass:

We have audited the accompanying balance sheets of the Tennessee Housing Development Agency, a component unit of the State of Tennessee, as of June 30, 1998, and June 30, 1997, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the agency's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

Except as discussed in the following paragraph, we conducted our audits in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The agency has included such disclosures in Note 11. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the agency's disclosures with respect to the year 2000 issue made in Note 11. Further, we do not provide assurance that the agency is or will be year 2000 ready, that the agency's year

The Honorable W. R. Snodgrass
December 9, 1998
Page Two

2000 remediation efforts will be successful in whole or in part, or that parties with which the agency does business will be year 2000 ready.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Housing Development Agency, as of June 30, 1998, and June 30, 1997, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

As discussed in Note 10 to the financial statements, the agency implemented GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, in conformity with generally accepted accounting principles.

Our audits were conducted for the purpose of forming an opinion on the financial statements, taken as a whole. The accompanying financial information, following the notes to the financial statements, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, is fairly stated in all material respects in relation to the financial statements, taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 1998, on our consideration of the agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants.

Sincerely,

/s/ *Arthur A. Hayes, Jr.*

Arthur A. Hayes, Jr., CPA, Director
Division of State Audit

AAH/km

TENNESSEE HOUSING DEVELOPMENT AGENCY
BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997
(Expressed in Thousands)

	1998	1997
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 211,573	\$ 181,627
Short-term investments (Note 2)	201,373	205,403
Receivables:		
Accounts	9,922	5,485
Interest	22,082	21,902
First mortgage loans	23,788	23,640
Due from federal government	0	108
Total current assets	468,738	438,165
Other assets:		
Long-term investments (Note 2)	448,534	419,109
First mortgage loans receivable	1,179,438	1,226,883
Deferred charges	2,725	2,789
Other receivables	23	24
Total other assets	1,630,720	1,648,805
Fixed assets:		
Office furniture and fixtures	570	540
Less: accumulated depreciation	(410)	(410)
Total fixed assets	160	130
Total assets	\$ 2,099,618	\$ 2,087,100
<u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Current liabilities:		
Warrants payable	\$ 1,136	\$ 1,734
Checks payable (Note 3)	2,022	1,468
Accounts payable and accruals	6,916	4,895
Due to primary government	0	35
Interest payable	45,874	52,856
Escrow deposits payable	16,457	15,659
Prepayments on mortgage loans	1,298	1,263
Notes payable (Note 4)	47,755	0
Deferred revenue	1,292	978
Bonds payable (Note 4)	240,915	224,585
Total current liabilities	363,665	303,473
Noncurrent liabilities:		
Bonds payable (Note 4)	1,436,570	1,513,492
Less: Unamortized bond discount	(9,803)	(10,829)
Unamortized bond refunding costs	(4,727)	(1,272)
Total noncurrent liabilities	1,422,040	1,501,391
Total liabilities	1,785,705	1,804,864
Equity:		
Contributed capital (Note 5)	2,500	2,500
Retained earnings:		
Reserved - HOUSE Program (Note 5)	28,813	20,742
Reserved - Mortgage Finance Program Bonds (Note 5)	33,399	24,488
Reserved - Homebuyers Revolving Loan Program (Note 5)	240	177
Reserved - primary government (Note 5)	0	43,000
Unreserved (Note 7)	248,961	191,329
Total retained earnings	311,413	279,736
Total equity	313,913	282,236
Total liabilities and equity	\$ 2,099,618	\$ 2,087,100

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997
(Expressed in Thousands)

	1998	1997
<u>OPERATING REVENUES</u>		
Mortgage interest income	\$ 95,211	\$ 100,393
Investment income		
Interest	47,356	44,025
Net increase in the fair value of investments (Note 10)	19,927	0
Fees and other income	926	813
Total operating revenues	<u>163,420</u>	<u>145,231</u>
<u>OPERATING EXPENSES</u>		
Salaries and benefits	3,030	2,667
Contractual services	666	686
Materials and supplies	72	97
Rentals and insurance	298	352
Other administrative expenses	121	84
Other program expenses	411	560
Interest expense	106,005	106,967
Mortgage service fees	4,391	4,488
Issuance costs	343	163
Depreciation	66	98
Total operating expenses	<u>115,403</u>	<u>116,162</u>
Operating income	<u>48,017</u>	<u>29,069</u>
<u>NONOPERATING REVENUES (EXPENSES)</u>		
Federal grants revenue	42,728	39,178
Gain on sale of investments	0	124
Interdepartmental tax revenue	16,277	14,182
Federal grants expenses	(42,728)	(39,178)
Local grants expenses	(7,615)	(9,452)
Total nonoperating revenues (expenses)	<u>8,662</u>	<u>4,854</u>
Income before transfer and extraordinary loss	<u>56,679</u>	<u>33,923</u>
Operating transfer to primary government	<u>(43,000)</u>	<u>0</u>
Income before extraordinary loss	<u>13,679</u>	<u>33,923</u>
Extraordinary loss on early retirement of debt (Note 4)	<u>(119)</u>	<u>(165)</u>
Net income	<u>13,560</u>	<u>33,758</u>
Retained earnings, July 1	279,736	245,978
Cumulative effect of a change in accounting principle (Note 10)	<u>18,117</u>	<u>0</u>
Retained earnings, July 1, as restated	297,853	245,978
Retained earnings, June 30	<u>\$ 311,413</u>	<u>\$ 279,736</u>

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997
(Expressed in Thousands)

	1998	1997
Cash flows from operating activities:		
Operating income	\$ 48,017	\$ 29,069
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation and amortization	176	83
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(4,437)	(2,066)
(Increase) decrease in interest receivable	1,005	(994)
(Increase) decrease in first mortgage loans receivable	47,297	2,607
(Increase) decrease in due from federal government	108	321
(Increase) decrease in deferred charges	5	(7)
(Increase) decrease in other receivables	1	0
Increase (decrease) in warrants payable	(598)	851
Increase (decrease) in accounts payable	716	4,757
Increase (decrease) in due to primary government	(35)	31
Increase (decrease) in deferred revenue	492	0
Investment income included as operating revenue	(67,283)	(44,025)
Interest expense included as operating expense	106,005	106,967
Total adjustments	83,452	68,525
Net cash provided (used) by operating activities	131,469	97,594
Cash flows from non-capital financing activities:		
Operating grants received	42,728	39,178
Operating transfer to primary government	(43,000)	0
Taxes received	16,277	14,182
Negative cash balance implicitly financed	554	(2,069)
Proceeds from sale of bonds	304,547	221,864
Proceeds from issuance of notes	47,755	0
Operating grants paid	(50,343)	(48,630)
Cost of issuance paid	(549)	(543)
Principal payments	(371,850)	(135,495)
Interest paid	(108,491)	(104,300)
Net cash provided (used) by non-capital financing activities	(162,372)	(15,813)
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	(109)	(44)
Net cash used by capital and related financing activities	(109)	(44)
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	1,096,294	673,453
Purchases of investments	(1,083,645)	(763,427)
Investment interest received	48,309	42,287
Net cash provided (used) by investing activities	60,958	(47,687)
Net increase in cash and cash equivalents	29,946	34,050
Cash and cash equivalents, July 1	181,627	147,577
Cash and cash equivalents, June 30	\$ 211,573	\$ 181,627
Noncash investing, capital, and financing activities:		
Disposition of fixed assets	\$ 39	\$ 100
Accretion of deep discount bonds	5,365	2,160
Total noncash investing, capital, and financing activities	\$ 5,404	\$ 2,260

The Notes to the Financial Statements are an integral part of this statement.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 1998, AND JUNE 30, 1997

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Reporting Entity

The Tennessee Housing Development Agency was created by an act of the legislature (Chapter 241, Public Acts, 1973). The act was approved by the Governor on May 14, 1973. The enabling legislation can be found in *Tennessee Code Annotated*, Section 13-23-101 *et seq.* The purpose of the agency is to improve housing and living conditions for lower- and moderate-income persons and families in Tennessee by making loans and mortgages to qualified sponsors, builders, developers, and purchasers of low- and moderate-income family dwellings.

Agency operations are directed by a 19-member board of directors. The board consists of five members who serve *ex officio* (the State Treasurer, the Comptroller of the Treasury, the Commissioner of the Department of Finance and Administration, the Secretary of State, and a staff assistant to the Governor), and 14 appointed members -- 12 appointed by the Governor and one each by the Speaker of the House and the Speaker of the Senate. The board includes representatives of the housing, real estate, home-building, and mortgage-lending industries; representatives of local government and nonprofit organizations; and citizens from the public at-large.

In order to accomplish its objectives, the agency is authorized to raise funds through the issuance of bonds and notes. Bonds and notes issued by the agency are not general obligations of the State of Tennessee or any of its political subdivisions, and neither the faith and credit nor the taxing power of the state or any political subdivision is pledged for payment of the principal or interest on such bonds or notes.

The Tennessee Housing Development Agency is a component unit of the State of Tennessee. Although the agency is a separate legal entity, the state appoints a majority of its governing body, approves its budget, and provides some financial support. The agency is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

b. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The agency follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989. Certain accounting policies and procedures are stipulated in the agency's 1974, 1981, and 1985 bond resolutions. The agency follows these procedures in establishing and maintaining the various funds and accounts for its programs. Revenues and expenses applicable to each fund and account are recorded therein.

c. Basis of Accounting and Measurement Focus

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

d. Depreciation

The agency records furniture and office equipment at cost and follows the straight-line method of depreciating the assets over their estimated useful lives, which are determined considering physical factors as well as obsolescence factors.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1998, AND JUNE 30, 1997

e. Bond Issuance Costs, Discounts, Refunding Costs, and Interest Accretion

1. Bond Issuance Costs: The agency amortizes bond issuance costs using the bonds outstanding method over the life of the related bond issue. Unamortized bond issuance costs are reported as deferred charges.
2. Bond Discount and Refunding Costs: The agency amortizes bond discount using the bonds outstanding method over the life of the related bond issue. Bond refunding costs are amortized using the straight-line method. The bonds outstanding method approximates the effective interest method of amortization. Bonds payable are reported net of the applicable unamortized bond discount and unamortized bond refunding costs.
3. Interest Accretion: The difference between the face amount of deep discount bonds and the public offering price is not treated as bond discount. Deep discount bonds are subject to redemption at prices which increase from the public offering price up to the face amount. The carrying amount of these bonds is adjusted monthly to reflect the increased liability, with a corresponding charge to interest expense.
4. Mortgage Discount: Discounts on 30-year mortgage loans purchased by the agency are amortized using the straight-line method over 17 years, the estimated average life of mortgages. The amount amortized is credited to interest income.

f. Cash and Cash Equivalents

In addition to demand deposits, petty cash, and deposits in the pooled investment fund administered by the State Treasurer, this classification includes short-term investments with original maturities of three months or less from the date of acquisition.

g. Investments

The agency has established guidelines for its funds to meet the requirements of the bond resolutions and to comply with the statutes of the State of Tennessee. Permitted investments include the following: direct obligations of the U.S. Treasury and U.S. Agencies; obligations guaranteed by the U.S.; public housing bonds secured by contracts with the U.S.; direct and general obligations of the State of Tennessee or obligations guaranteed by the State of Tennessee; obligations of other states or instrumentalities thereof which are rated in either of the two highest rating categories by Moody's Investor Service or Standard & Poor's Corporation; interest bearing time or demand deposits; collateralized certificates of deposit in authorized state depositories; and repurchase agreements collateralized by authorized securities.

Effective July 1, 1997, investments are stated at fair value. Prior to this date, investments were stated at cost or amortized cost.

h. Accrual of Interest Income

Interest on first mortgage loans receivable and investment securities is credited to income as earned and classified as interest receivable.

i. Mortgages

Mortgages are carried at their original amount less principal collected.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1998, AND JUNE 30, 1997

NOTE 2. DEPOSITS AND INVESTMENTS

a. Deposits

The agency's deposits are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure.

At June 30, 1998, the carrying amount of the Agency's deposits was \$17,949,895, and the bank balance was \$1,416,591. At June 30, 1997, the carrying amount of the Agency's deposits was \$7,230,364, and the bank balance was \$312,407. All bank balances were insured. The carrying amount of the Agency's cash on deposit in the State Treasurer's pooled investment fund was \$33,844,130 on June 30, 1998, and \$33,298,397 on June 30, 1997.

b. Investments

The agency's investments are categorized to indicate the level of custodial risk assumed by the agency at year-end. Category 1 includes investments that are insured or registered for which the securities are held by the agency or its agent in the agency's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the agency's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the agency's name. Investments are categorized as follows:

June 30, 1998			
	Category		
	<u>1</u>	<u>2</u>	<u>3</u>
			Fair Value
Cash equivalents and short-term investments			
Repurchase agreements	\$131,658,000		\$131,658,000
U S government securities	229,494,398		229,494,398
Total cash equivalents and short-term investments	<u>\$361,152,398</u>		<u>\$361,152,398</u>
Long-term investments			
U S government securities	\$447,722,287		\$447,722,287
State & local government securities	811,919		811,919
Total long-term investments	<u>\$448,534,206</u>		<u>\$448,534,206</u>
Total	<u><u>\$809,686,604</u></u>		<u><u>\$809,686,604</u></u>

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1998, AND JUNE 30, 1997

June 30, 1997

	Category			Carrying	Market
	<u>1</u>	<u>2</u>	<u>3</u>	Amount	Value
Cash equivalents and short-term investments					
Repurchase agreements	\$ 148,600,000			\$ 148,600,000	\$ 148,600,000
U S government securities	197,500,737			197,500,737	197,264,291
State & local government securities	400,000			400,000	400,020
Total cash equivalents and short-term investments	\$ 346,500,737			\$ 346,500,737	\$ 346,264,311
Long-term investments					
U S government securities	\$ 410,894,069			\$ 410,894,069	\$ 429,006,986
Citibank investment agreement	7,768,600			7,768,600	7,768,600
State & local government securities	446,536			446,536	451,521
Total long-term investments	\$ 419,109,205			\$ 419,109,205	\$ 437,227,107
Total	\$ 765,609,942			\$ 765,609,942	\$ 783,491,418

NOTE 3. CHECKS PAYABLE

This amount represents the sum of checks written in excess of the agency's checking account balance because of the agency's use of a controlled disbursement account. Through the use of a controlled disbursement account, the agency maximizes interest income by transferring from an investment account only funds necessary to cover the checks that clear the bank daily.

NOTE 4. REVENUE BONDS AND NOTES PAYABLE

a. Bonds Issued and Outstanding

The following tables are a summary of bonds issued and outstanding as of June 30, 1998, and June 30, 1997.

BONDS ISSUED						BONDS OUTSTANDING	
(Thousands)						(Thousands)	
SERIAL BONDS			TERM BONDS				
<u>Series</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>	<u>6-30-98</u>
MORTGAGE FINANCE BONDS							
1993A	1/1/99-7/1/2008	\$ 136,420	4.70 to 5.70	7/1/2010	\$ 15,365	5.80	
				7/1/2013	25,540	5.85	
				7/1/2018	28,815	5.90	
				7/1/2028	59,770	5.95	\$ 265,910
1994A	1/1/96-7/1/2009	14,760	4.40 to 6.35	1/1/2019	20,835	6.40	
				7/1/2025	24,405	6.90	52,750
1994B	1/1/96-7/1/2011	30,095	4.50 to 6.40	7/1/2014	10,015	6.45	
				7/1/2019	21,810	6.55	
				7/1/2025	38,080	6.60	90,270
1995A	1/1/97-7/1/2008	14,270	5.45 to 6.55	7/1/2010	3,735	6.65	
				7/1/2014	9,350	6.85	
				7/1/2020	20,485	7.05	98,745

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1998, AND JUNE 30, 1997

BONDS ISSUED (Thousands)							BONDS OUTSTANDING (Thousands)	
SERIAL BONDS				TERM BONDS				
<u>Series</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>	<u>6-30-98</u>	<u>6-30-97</u>
<u>MORTGAGE FINANCE BONDS (CONT.)</u>								
1995A (cont.)				7/1/2026	32,160	7.125	73,540	79,600
1995B				7/1/2015	3,135	6.15		
				7/1/2018	12,155	6.20	15,290	15,290
1995C	1/1/97-7/1/2009	22,990	4.80 to 5.95	7/1/2015	15,300	6.10		
				7/1/2021	14,685	6.45		
				7/1/2026	31,735	6.55	77,335	84,090
TOTAL MORTGAGE FINANCE BONDS		<u>\$ 218,535</u>			<u>\$ 387,375</u>		<u>\$ 575,095</u>	<u>\$ 600,755</u>
<u>HOMEOWNERSHIP PROGRAM BONDS</u>								
Issue C	7/1/88-7/1/2000	6,460	4.50 to 7.30	7/1/2006	5,980	7.50		
				7/1/2010	5,565	6.625		
				7/1/2016	11,995	7.50	-0-	20,645
Issue D	7/1/88-7/1/2002	11,575	4.25 to 7.00	7/1/2007	7,565	7.25		
				7/1/2018	30,860	7.375	-0-	44,585
Issue F	7/1/89-7/1/2000	12,910	5.30 to 7.90	7/1/2016	52,340	7.90		
				7/1/2019	19,750	8.50	-0-	26,315
Issue G	7/1/89-7/1/2002	16,345	5.25 to 7.50	7/1/2006	8,500	7.65	7,440	9,200
Issue H				7/1/2015	33,000	7.825		
				7/1/2019	27,155	8.375	7,000	9,300
Issue I	7/1/90-7/1/2003	15,535	5.80 to 8.00	7/1/2013	26,250	8.00		
				7/1/2019	33,215	8.375	-0-	1,040
Issue J	7/1/92-7/1/2003	6,010	6.25 to 7.40	7/1/2008	4,555	7.625		
				7/1/2017	14,435	7.75	8,175	23,080
Issue K	7/1/92-7/1/2003	18,960	6.40 to 7.70	7/1/2021	52,755	8.125		
				7/1/2004 to 7/1/2008		7.90 to 8.10		
					3,060		14,470	15,945
						Interest Accretion	3,464	2,973
Issue M				7/1/2017	28,740	7.125	25,585	25,585
Issue N	7/1/91-7/1/2008	29,000	6.70 to 7.50	7/1/2011	8,725	7.60		
				7/1/2020	19,275	7.65	47,605	49,885
Issue O	7/1/91-7/1/2005	21,580	6.40 to 7.50	7/1/2009	10,675	7.70		
				7/1/2020	51,745	7.75	61,555	77,825
Issue P	7/1/97-7/1/2010	17,540	6.85 to 7.50	7/1/2016	22,460	7.70	30,013	30,113
						Interest Accretion	9,443	7,966
Issue Q				7/1/2022	35,000	7.95	-0-	22,900
Issue S	7/1/92-7/1/2005	16,210	6.20 to 7.40	7/1/2010	10,985	7.50		
				7/1/2022	51,405	7.625	69,720	70,675
Issue T	7/1/92-7/1/2002	9,560	5.00 to 6.75	7/1/2011	15,875	7.30		
				7/1/2023	46,940	7.375	68,045	68,890
Issue U	7/1/00-7/1/2006	10,570	6.40 to 6.95	7/1/2011	11,460	7.35		
				7/1/2016	15,660	7.40	27,235	27,235
Issue V	7/1/92-7/1/99	7,725	5.30 to 6.55	7/1/2022	29,585	7.65	24,220	27,005
Issue WR	7/1/94-7/1/2007	15,020	4.25 to 6.45	7/1/2012	9,725	6.70		
				7/1/2017	25,155	6.80	44,210	45,095
Issue XR				7/1/2022	8,555	6.875	4,275	6,670
Issue Y1	1/1/95-7/1/2007	4,860	3.50 to 5.60	7/1/2013	3,660	5.80		
				7/1/2017	3,245	5.90	10,425	10,735
Issue Z1	1/1/95-7/1/2007	5,505	3.75 to 5.85	7/1/2013	3,535	6.00		
				7/1/2023	16,250	5.375		
				7/1/2024	12,945	6.10	29,625	31,630
Issue Y2	1/1/2004-7/1/2007	1,520	5.00 to 5.20	7/1/2013	2,965	5.45		
				7/1/2017	2,575	5.55	6,890	6,890
Issue Z2	1/1/95-7/1/2003	3,790	3.50 to 5.00	7/1/2023	12,000	5.00		
				7/1/2024	7,150	5.75	17,775	19,545

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1998, AND JUNE 30, 1997

BONDS ISSUED (Thousands)							BONDS OUTSTANDING (Thousands)	
SERIAL BONDS				TERM BONDS				
<u>Series</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>	<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate (Percent)</u>	<u>6-30-98</u>	<u>6-30-97</u>
HOMEOWNERSHIP PROGRAM BONDS (CONT.)								
1994-1				1/1/98	9,500	5.20		
				1/1/99	24,000	5.50	24,000	33,500
1995-1	1/1/97-7/1/2010	16,965	4.35 to 6.05	7/1/2016	13,060	6.35		
				7/1/2021	15,635	6.40		
				1/1/2026	19,340	6.48	28,495	29,210
1996-1A	7/1/97	290	4.00	7/1/98 to		4.10 to		
				7/1/2012	12,225	5.60		
				7/1/2015	4,210	5.70		
				7/1/2017	3,255	5.75		
				7/1/2022	10,090	5.80		
				1/1/2026	9,125	5.85	38,445	39,195
1996-1B	7/1/2010-1/1/2011	805	5.35 to 5.45				805	805
1996-2A	1/1/98-7/1/2014	20,310	4.40 to 6.15	7/1/2016	4,675	6.00		
				7/1/2022	18,360	6.35		
				1/1/2027	18,835	6.375	61,545	62,180
1996-2B	7/1/2009-1/1/2011	2,820	5.70 to 5.80				2,820	2,820
1996-3	7/1/99-7/1/2012	16,490	4.30 to 5.65	7/1/2017	10,670	5.85		
				7/1/2023	18,540	5.85		
				1/1/2028	19,300	6.00	65,000	65,000
1996-4A	7/1/98-7/1/2011	13,535	4.35 to 6.00	7/1/2016	8,975	6.05		
				7/1/2022	15,485	6.375		
				1/1/2027	16,400	6.45	54,315	54,395
1996-4B	1/1/2011	605	5.85				605	605
1996-5				8/21/97	60,000	4.00	-0-	60,000
1996-5A	7/1/99-7/1/2012	8,180	4.00 to 5.35	7/1/2017	4,825	5.50		
				7/1/2023	7,935	5.55		
				7/1/2028	9,060	5.75	30,000	-0-
1996-5B				8/20/98	30,000	3.85	30,000	-0-
1997-1				2/19/98	57,885	3.75	-0-	57,885
1997-1	7/1/99-7/1/2012	16,385	4.00 to 5.10	7/1/2017	9,695	5.00		
				7/1/2023	15,845	5.375		
				1/1/2028	15,960	5.40	57,885	-0-
1997-2				6/4/98	50,000	4.00	-0-	50,000
1997-2				3/4/99	50,000	3.70	50,000	-0-
1997-3A	1/1/98-7/1/2008	40,911	4.00 to 5.35	7/1/2012	23,174	5.125		
				1/1/2017	1,133	5.875		
				7/1/2017	2,746	5.875	67,865	-0-
					Interest Accretion		2,553	-0-
1997-3B				7/1/2016	20,044	5.725	20,044	-0-
					Interest Accretion		843	-0-
1998-1				6/17/99	50,000	3.75	50,000	-0-
TOTAL HOMEOWNERSHIP PROGRAM BONDS		<u>\$367,971</u>			<u>\$1,463,252</u>		<u>\$1,102,390</u>	<u>\$1,137,322</u>

b. Debt Service Requirements

Debt service requirements to maturity at June 30, 1998, are as follows (expressed in thousands):

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1998, AND JUNE 30, 1997

For the Year(s) Ending			Total
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
1999	\$ 228,042	\$ 94,471	\$ 322,513
2000	36,471	87,872	124,343
2001	36,034	86,886	122,920
2002	37,970	85,137	123,107
2003	40,108	83,227	123,335
2004 - 2029	<u>1,320,509</u>	<u>1,126,133</u>	<u>2,446,642</u>
Total	<u>\$1,699,134</u>	<u>\$1,563,726</u>	<u>\$ 3,262,860</u>

The debt principal in the preceding table is \$16.3 million less than that presented in the accompanying financial statements. This amount, representing the accretion to date of interest on deep discount bonds in those years preceding the first principal payment on these bonds, has been reported as bond principal in the financial statements; it has been reported here as interest in those years (2000-2010) in which the bonds mature. Interest payable for fiscal year 1999 includes \$874,432 attributable to the convertible notes 1997CN-1. The interest rate on these notes changes each month and the interest included in the table is based on the rate in effect at June 30, 1998.

c. Redemption of Bonds

During the year ended June 30, 1998, bonds were retired at par before maturity in the Mortgage Finance Program Bonds in the amount of \$485,000 and in the Homeownership Program Bonds in the amount of \$14,225,000. The respective carrying values of these bonds were \$480,283 and \$14,110,078. This resulted in a loss to the Mortgage Finance Program of \$4,717 and the Homeownership Program of \$114,922.

On May 29, 1997, the agency issued \$50,000,000 in Homeownership Program Bonds, Issue 1997-2, \$29,725,000 of which will be used to refund certain bonds previously issued in the Mortgage Finance Program and Homeownership Program on July 1, 1997 (this amount consists of \$27,240,000 early redemptions and \$2,485,000 current maturities). The carrying amount of these bonds was \$29,515,777. The refunding resulted in a difference of \$209,223 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2027. This refunding was accomplished using proceeds of short-term bonds, which will in turn be refunded upon maturity; therefore, the full economic impact of these refundings was not determined as of June 30, 1998.

On October 9, 1997, the agency issued \$88,008,335 in Homeownership Program Bonds, Issue 1997-3, which was used to refund certain bonds previously issued in the Homeownership Program on December 1, 1997. The carrying amount of those bonds was \$86,887,469. A call premium of \$1,880,950 was paid on the redemption of these bonds. The refunding resulted in a difference of \$3,003,481 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2016. The agency completed the refunding to reduce its total debt service over the next 18 years by \$2,377,996 and realized an economic gain (the difference between the present value of the old and new debt service payments) of \$17,539,742.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1998, AND JUNE 30, 1997

On December 1, 1997, the agency issued \$65,000,000 of drawdown notes, 1997CN-1, of which \$47,755,000 was drawn down to refund certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program on January 1, 1998 (this amount consists of \$45,535,000 early redemptions and \$2,220,000 current maturities). The carrying amount of these bonds was \$47,341,077. The refunding resulted in a difference of \$413,923 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026. The refunding was accomplished using proceeds of short-term debt, which will in turn be refunded upon maturity; therefore, the full economic impact of these refundings was not determined as of June 30, 1998.

On February 19, 1998, the agency remarketed \$57,885,000 in Homeownership Program Bonds, Issue 1997-1, which was used to refund certain bonds previously issued in the Homeownership Program. The agency completed the refunding to reduce its total debt service over the next 24 years by \$24,769,152 and realized an economic gain (the difference between the present value of the old and new debt service payments) of \$19,498,872.

On June 4, 1998, the agency issued \$50,000,000 in Homeownership Program Bonds, Issue 1998-1, of which \$40,930,000 was used for refunding certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program on July 1, 1998 (this amount consists of \$37,395,000 early redemptions and \$3,535,000 current maturities). This refunding will be accomplished using proceeds of short-term bonds, which will in turn be refunded upon maturity; therefore, the full economic impact of these refundings was not determined as of June 30, 1998.

During the year ended June 30, 1997, bonds were retired at par before maturity in the Mortgage Finance Program Bonds in the amount of \$1,800,000 and in the Homeownership Program Bonds in the amount of \$15,745,000. The respective carrying values of these bonds were \$1,789,980 and \$15,590,483. This resulted in losses to the Mortgage Finance Program of \$10,020 and the Homeownership Program of \$154,517 attributable to unamortized bond discount and issuance costs associated with the redeemed bonds.

On June 20, 1996, the agency issued \$65,000,000 in Homeownership Program Bonds, Issue 1996-2, of which \$41,400,000 was used for refunding certain bonds previously issued in the Mortgage Finance Program and the Homeownership Program on July 1, 1996 (this amount consists of \$28,025,000 early redemptions and \$13,375,000 current maturities). The carrying amount of those bonds was \$41,191,223. The refunding resulted in a difference of \$208,777 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2024. The agency completed the refunding to reduce its total debt service over the next 31 years by \$13,223,783 and to obtain an economic gain (the difference between the present value of the old and new debt service payments) of \$14,651,821.

On September 19, 1996, the agency issued \$55,000,000 in Homeownership Program Bonds, Issue 1996-4, of which \$14,185,000 was used for refunding certain bonds previously issued in the Homeownership Program on October 11, 1996. The carrying amount of those bonds was \$14,124,546. The refunding resulted in a difference of \$60,454 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022. The agency completed the refunding to reduce its total debt service payments over the next 31 years by \$7,173,515 and to obtain an economic gain (the difference between the present value of the old and new debt service payments) of \$12,244,877.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1998, AND JUNE 30, 1997

On February 5, 1997, the agency issued \$57,885,000 in Homeownership Program Bonds, Issue 1997-1, all of which was used for refunding certain bonds previously issued in the Homeownership Program on March 3, 1997 (this amount consists of \$17,129,167 early redemptions and \$40,755,833 from current maturities). The carrying amount of those bonds was \$57,780,728. The refunding resulted in a difference of \$104,272 between the reacquisition price and the net carrying amount of the old debt. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2022. The refunding was accomplished using proceeds of short-term bonds, which will in turn be refunded upon maturity; therefore, the full economic impact of these refundings was not determined as of June 30, 1997.

Details of the bond retirements by issue are as follows:

Year Ended June 30, 1998

Date of Call	Issue	Par Value	Carrying Amount	Call Premium	(Loss)	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS							
07/01/97	94A	\$1,010,000	\$1,004,492			(\$ 5,508)	Current Refunding
07/01/97	94B	4,000,000	3,967,053			(32,947)	Current Refunding
07/01/97	95A	2,000,000	1,979,053			(20,947)	Current Refunding
07/01/97	95C	2,295,000	2,272,333			(22,667)	Current Refunding
07/01/97	95C	115,000	113,864		(\$ 1,136)		Prepayment
01/01/98	94A	2,590,000	2,576,163			(13,837)	Current Refunding
01/01/98	94B	3,160,000	3,134,516			(25,484)	Current Refunding
01/01/98	95A	3,215,000	3,182,014			(32,986)	Current Refunding
01/01/98	95C	2,690,000	2,663,968			(26,032)	Current Refunding
01/01/98	95C	370,000	366,419		(\$3,581)		Prepayments
	Sub-Total	\$21,445,000	\$21,259,875	\$-0-	(\$4,717)	(\$180,408)	
HOMEOWNERSHIP PROGRAM BONDS							
07/01/97	86F	\$ 840,000	\$ 832,048			(\$ 7,952)	Current Refunding
07/01/97	86G	370,000	366,554			(3,446)	Current Refunding
07/01/97	86H	1,000,000	990,686			(9,314)	Current Refunding
07/01/97	87I	930,000	921,961			(8,039)	Current Refunding
07/01/97	90Q	12,965,000	12,880,691			(84,309)	Current Refunding
07/01/97	90Q	645,000	640,806		(\$4,194)		Prepayments
07/01/97	91XR	330,000	326,155		(3,845)		Prepayments
07/01/97	92Z1	635,000	629,322			(5,678)	Current Refunding
07/01/97	92Z2	420,000	416,261			(3,739)	Current Refunding
07/01/97	95-1	330,000	328,975			(1,025)	Current Refunding
07/01/97	96-1	165,000	163,814			(1,186)	Current Refunding
07/01/97	96-2	220,000	218,183			(1,817)	Current Refunding
07/01/97	96-4	60,000	59,351			(649)	Current Refunding
12/01/97	86C	20,045,000	19,705,956	\$ 400,900		(739,944)	Current Refunding
12/01/97	86D	43,725,000	43,162,422	1,311,750		(1,874,328)	Current Refunding
12/01/97	86F	24,240,000	24,019,091	168,300		(389,209)	Current Refunding
12/01/97	90Q	6,000,000	5,962,232		(37,768)		Prepayments
01/01/98	86G	365,000	361,773			(3,227)	Current Refunding
01/01/98	86H	1,300,000	1,288,505			(11,495)	Current Refunding
01/01/98	88J	14,435,000	14,290,846			(144,154)	Current Refunding
01/01/98	89N	1,035,000	1,022,542		(12,458)		Prepayments
01/01/98	89O	14,990,000	14,855,086			(134,914)	Current Refunding
01/01/98	90Q	1,050,000	1,043,441			(6,559)	Current Refunding
01/01/98	90Q	2,240,000	2,226,008		(13,992)		Prepayments
01/01/98	91V	1,890,000	1,870,803		(19,197)		Prepayments
01/01/98	91XR	2,065,000	2,041,743		(23,257)		Prepayments
01/01/98	92Z1	895,000	887,148			(7,852)	Current Refunding
01/01/98	92Z2	845,000	837,617			(7,383)	Current Refunding
01/01/98	96-4	20,000	19,789		(211)		Prepayments
	Sub-Total	\$154,050,000	\$152,369,809	\$1,880,950	(\$114,922)	(\$3,446,219)	
	Total	\$175,495,000	\$173,629,684	\$1,880,950	(\$119,639)	(\$3,626,627)	

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1998, AND JUNE 30, 1997

Year Ended June 30, 1997

Date of Call	Issue	Par Value	Carrying Amount	(Loss)	Deferred Amount	Source of Funds
MORTGAGE FINANCE PROGRAM BONDS						
01/01/97	94A	\$1,800,000	\$1,789,980	(\$10,020)		Prepayments
	Sub-Total	\$1,800,000	\$1,789,980	(\$10,020)	\$0	
HOMEOWNERSHIP PROGRAM BONDS						
07/01/96	86F	\$1,090,000	\$1,079,828		(\$10,172)	Current Refunding
07/01/96	86G	385,000	381,458		(3,542)	Current Refunding
07/01/96	86H	1,100,000	1,089,881		(10,119)	Current Refunding
07/01/96	87I	920,000	912,052		(7,948)	Current Refunding
07/01/96	88K	10,730,000	10,616,452		(113,548)	Current Refunding
07/01/96	88L	11,815,000	11,767,379		(47,621)	Current Refunding
07/01/96	89M	640,000	631,756	(\$8,244)		Prepayments
07/01/96	90P	1,230,000	1,221,506	(8,494)		Prepayments
07/01/96	90Q	1,070,000	1,062,610		(7,390)	Current Refunding
07/01/96	91U	1,115,000	1,102,977	(12,023)		Prepayments
07/01/96	91Wr	1,040,000	1,027,487	(12,513)		Prepayments
07/01/96	92Z1	200,000	198,153	(1,847)		Prepayments
07/01/96	92Z1	650,000	643,996		(6,004)	Current Refunding
07/01/96	92Z2	85,000	84,219	(781)		Prepayments
07/01/96	92Z2	265,000	262,567		(2,433)	Current Refunding
10/11/96	88L	13,580,000	13,523,655		(56,345)	Current Refunding
10/11/96	89N	390,000	384,990	(5,010)		Prepayments
10/11/96	90P	605,000	600,891		(4,109)	Current Refunding
10/11/96	90Q	700,000	695,246	(4,754)		Prepayments
10/11/96	91V	450,000	445,154	(4,846)		Prepayments
10/11/96	91Xr	705,000	696,533	(8,467)		Prepayments
01/01/97	86F	1,020,000	1,010,368	(9,632)		Prepayments
01/01/97	86G	385,000	381,432	(3,568)		Prepayments
01/01/97	86H	1,100,000	1,089,805	(10,195)		Prepayments
01/01/97	87I	900,000	892,243	(7,757)		Prepayments
01/01/97	92Z1	1,340,000	1,327,769	(12,231)		Prepayments
01/01/97	92Z2	650,000	644,097	(5,903)		Prepayments
03/03/97	87I	10,150,000	10,064,719		(85,281)	Current Refunding
03/03/97	88L	6,199,167	6,185,348		(13,819)	Current Refunding
03/03/97	89N	725,000	715,920	(9,080)		Prepayments
03/03/97	90P	780,000	774,828		(5,172)	Current Refunding
03/03/97	90Q	1,165,000	1,157,276	(7,724)		Prepayments
03/03/97	91V	725,000	717,372	(7,628)		Prepayments
03/03/97	91Xr	1,180,000	1,166,180	(13,820)		Prepayments
	Sub-Total	\$75,084,167	\$74,556,147	(\$154,517)	(\$373,503)	
	Total	\$76,884,167	\$76,346,127	(\$164,537)	(\$373,503)	

Under the bond resolutions, the agency has the option to redeem bonds at an initial price of 103 percent and subsequently at prices declining to par. Generally, the redemption option cannot be exercised prior to the time the bonds have been outstanding for ten years. Certain special redemption options, as governed by the bond resolutions, are permitted prior to that time.

The bonds are secured, as described in the applicable bond resolutions, by the revenues, monies, investments, mortgage loans and other assets in the funds and accounts established by the resolutions.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1998, AND JUNE 30, 1997

d. Notes Issued and Outstanding

The Single Family Mortgage Notes Trust Indenture, dated December 1, 1997 (the "Trust Indenture"), provides for the issuance of Agency drawdown notes with a current maximum aggregate principal amount of \$65,000,000. The Series 1997CN-1 Notes (the "Notes"), dated December 1, 1997, are in the stated principal amount of \$65,000,000; however, the initial principal amount drawn down was \$47,755,000. The Notes bear interest, payable on the first Thursday of each succeeding month with respect to the principal amount drawn by the agency. The interest rate is equal to ninety percent (90%) of the bond equivalent yield as determined on the related rate date.

The following table is a summary of notes issued and outstanding as of June 30, 1998, and June 30, 1997.

NOTES ISSUED (Thousands)				NOTES OUTSTANDING (Thousands)	
<u>Series</u>	<u>Maturity</u>	<u>Stated Principal</u>	<u>Interest Rate (Percent)</u>	<u>06/30/98</u>	<u>06/30/97</u>
<u>SINGLE FAMILY MORTGAGE NOTES</u>					
1997CN-1	12/3/98	\$65,000	4.397	\$47,755	\$-0-
		<u>\$65,000</u>		<u>\$47,755</u>	<u>\$-0-</u>

NOTE 5. EQUITY

Retained earnings reserved for the Mortgage Finance Program Bonds represent the equity that is unavailable for transfer to the operating group from the other funds established under the 1974 Bond Resolution.

The \$2,500,000 shown as contributed capital on the balance sheet is an appropriation by the State of Tennessee for the Homebuyers Revolving Loan Program, a pilot demonstration program to fund low interest mortgages. Earnings from the Homebuyers Revolving Loan Program are reserved for use in the Homebuyers Revolving Loan Program.

The Reserve for the HOUSE Program reflects legislation of the State of Tennessee, effective July 1, 1988, which established the Assets Fund, the Housing Program Fund, and the Housing Program Reserve Fund. This legislation restricts to specific uses all agency funds that are not necessary to support the bond and note obligations and which can be withdrawn from the specific funds of the various bond resolutions as provided under the resolutions. These uses include supporting the rental rehabilitation program, construction loans, grants to local governments and nonprofit organizations, and agency operating expenses.

Initially an amount of \$49,018,410 was transferred on the agency's accounting records to the Assets Fund from the General Fund of the Mortgage Finance Program Group. In addition to the monies provided by the agency, TCA Section 13-23-402 allocates a portion of the real estate transfer taxes and the mortgage taxes levied by the State to the Housing Program Fund.

On May 31, 1997, the General Assembly adopted House Bill 1804/Senate Bill 1943 and on June 19, 1997, the Governor signed the bill into law as Chapter 537 of the Public Acts of 1997 (the "Amendments"). The Amendments modify the Tennessee Housing Development Agency Act by authorizing a transfer of up to \$88,000,000 from the Agency to the State of Tennessee General Fund, at June 30, 1998. Further, the Amendments provide for replenishing the Agency's Assets Fund, beginning July 1, 1998, from all tax

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1998, AND JUNE 30, 1997

revenues received by the Agency in excess of \$10,000,000 each fiscal year until the balance of the Assets Fund once again reaches \$50,000,000.

In addition to the Amendments, the General Assembly adopted and the Governor signed into law the general appropriation act for the State of Tennessee for the year ending June 30, 1998, as Chapter 552 of the Public Acts of 1997 (the "Appropriations Act"). On December 9, 1997, it was determined that \$45,000,000 would be restored to the Agency under the provisions of the Appropriations Act. Thus the total transfer from the Agency to the State of Tennessee General Fund on June 30, 1998, was \$43,000,000.

NOTE 6. DEFINED BENEFIT PENSION PLAN

The agency implemented GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*. In accordance with that statement, at transition it was determined that a pension liability or asset does not exist for the plan.

The agency contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHIEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee, 37243-0230 or by calling (615) 741-8202, Ext. 139.

Plan members are noncontributory. The agency is required to contribute at an actuarially determined rate. The current rate is 3.65% of annual covered payroll. Contribution requirements for the agency are established and may be amended by the TCRS' Board of Trustees. The agency's contributions to TCRS for the years ended June 30, 1998, 1997, and 1996 were \$144,649, \$276,668, \$238,829. Those contributions met the required contributions for each year.

NOTE 7. PROVISIONS FOR MORTGAGE LOAN LOSSES

Most mortgage loans are insured by Federal Housing Administration (FHA) or an approved private mortgage insurance company, or are guaranteed by Veteran's Administration (VA). The agency's Board of Directors has designated \$750,000 of unreserved retained earnings as a provision for possible loan losses arising from participation in the Rural Economic and Community Development (RECD) Loan Guarantee Program. An additional \$232,000 was designated to provide for losses on loans not specifically covered under one of the above programs, and \$500,000 has been designated for self-insurance of second mortgages.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1998, AND JUNE 30, 1997

NOTE 8. RISK MANAGEMENT

a. Commercial Insurance

The agency carries commercial insurance for risks of loss related to employee dishonesty; general liability protection; and theft of, damage to, or destruction of real and personal property. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

b. Claims Award Fund

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The agency participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on a percentage of the agency's expected loss costs which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of each fiscal year-end to determine the fund liability and premium allocation. Since the agency participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the agency for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

c. Employee Group Insurance Fund

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The agency participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the agency based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 9. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee provides and administers a group health insurance program which provides post-employment health insurance benefits to eligible agency retirees. The agency assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*.

NOTE 10. ACCOUNTING CHANGE

During the year ended June 30, 1998, the agency implemented GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools," which requires reporting certain investments with a remaining maturity of more than one year at the time of purchase at fair value. Changes in the fair value of investments (unrealized gains and losses) are recognized as revenue in the operating statement and are not separated from realized gains and losses.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1998, AND JUNE 30, 1997

The cumulative effect of this change in accounting principle is reported in the accompanying financial statements as a restatement of the beginning retained earnings. It was not practical to restate prior periods since not all information necessary to conform to this accounting change was available.

NOTE 11. YEAR 2000 COMPLIANCE

The "Year 2000 Issue" (Y2K) arises because most computer software programs allocate two digits to the data field for "year" on the assumption that the first two digits will be "19". Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc., absent reprogramming. Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software, and could impact both the ability to enter data into the computer programs and the ability of such programs to correctly process data. Y2K affects the computer applications of the Agency and its vendors, servicers, originating agents, investment providers and bond trustees.

The Agency completed its assessment of the impact of Y2K on its computer application systems, and their supporting infrastructure. The Agency identified five mission-critical application systems, one critical application system, and the Agency's Local Area Network (LAN) as systems essential to conducting operations. The Agency is in the process of assessing the Y2K effect on other equipment. To date, we are not aware of any material impact on the Agency's operations. The Agency defined mission-critical computer systems as those for which there are no reliable manual alternatives and for which failure to be in Y2K compliance would prevent the Agency from fulfilling its mission. Critical systems were defined as those for which there are manual alternatives, but the Agency would be unlikely to be able to fully or efficiently perform the functions manually, because of the volume of manual activity that would be required.

The Agency is responsible for additions to and maintenance of one of its mission-critical application systems. Testing of this mission-critical application system for Y2K compliance is complete. Testing was accomplished by utilizing the current production database, then adding and modifying data through all system functions using dates within the range of years 1999 through 2050.

The Agency determined that one mission-critical application system is in the remediation stage. The remediation stage is when the Agency is in the process of actually making changes to the system or equipment. The software to upgrade this application for Y2K compliance has been delivered to the Agency. The Agency expects to install this software and put it into production in December, 1998. This application system will then go into the validation/testing stage.

The Agency determined that three mission-critical application systems and its one critical application system are in the validation/testing stage. The validation/testing stage is when the Agency validates and tests the changes made during the conversion process. Vendors who are maintaining the software for each of these four systems have provided certifications that their software is Y2K compliant. The Agency's LAN provides the supporting computer system infrastructure upon which the Agency application systems reside and are processed. The LAN has multiple hardware and software components which include server, workstations, and network operating system. The Agency determined that these components are in the validation/testing stage.

The Agency's Y2K initiatives did not result in the commitment of significant financial resources as of the end of the Agency's reporting period.

TENNESSEE HOUSING DEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
JUNE 30, 1998, AND JUNE 30, 1997

The Agency is soliciting information from other organizations whose Y2K compliance could affect the Agency regarding the status of their assessment, testing and remediation of their computer applications. Of the organizations that have responded to date, all expect to achieve compliance in a manner that will not have a materially negative effect on the Agency's operations or financial status, although no assurances can be given that circumstances will not change. The Agency does not have full or complete information from these other organizations regarding the status of implementing Y2K compliance. Any failure by some or all of these persons to be in Y2K compliance may have a material negative impact on the Agency's operations or financial status.

NOTE 12. SUBSEQUENT EVENTS

- a. Mortgage prepayments, foreclosure proceeds, and bond proceeds were used to call bonds as indicated below:

July 1, 1998	74 Resolution	\$10,155,000
	85 Resolution	<u>\$49,695,000</u>
	Total	<u>\$59,850,000</u>
October 30, 1998	85 Resolution	<u>\$31,093,611</u>

- b. Homeownership Program Bonds, Issue 1996-5B, were remarketed August 20, 1998. The bond maturities are as follows:

BONDS ISSUED (Thousands)						
SERIAL BONDS				TERM BONDS		
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)
1996-5B	7/1/99 - 7/1/2012	\$8,880	3.85 to 5.05	7/1/2017	\$4,835	5.00
				7/1/2023	7,700	5.375
				7/1/2028	8,585	5.40
TOTAL		<u>\$8,880</u>			<u>\$21,120</u>	

- c. Homeownership Program Bonds, Issues 1998-2 and 1998-3, were sold August 20, 1998 and December 2, 1998, respectively. The bond maturities are as follows:

BONDS ISSUED (Thousands)						
SERIAL BONDS				TERM BONDS		
Series	Maturity	Amount	Interest Rate (Percent)	Maturity	Amount	Interest Rate (Percent)
1998-2	7/1/2000-7/1/2012	\$7,850	4.00 to 5.05	7/1/2017	\$ 4,620	5.10
				7/1/2023	7,385	5.35
				7/1/2029	10,145	5.375
1998-3A	7/1/2000-7/1/2001	700	3.70 to 3.90	1/1/2024	11,135	5.25
				1/1/2030	13,365	5.30
1998-3B	7/1/2001-7/1/2012	9,475	3.80 to 4.80	1/1/2017	5,325	5.00
1998-3C				11/18/99	40,000	3.10
TOTAL		<u>\$18,025</u>			<u>\$91,975</u>	

- d. On July 1, 1998, the Agency initiated the second draw of the series 1997CN-1 convertible notes. The amount of the draw was \$17,245,000, which maximized the principal amount of \$65,000,000.

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY BALANCE SHEETS
JUNE 30, 1998, AND JUNE 30, 1997
(Expressed in Thousands)

	1998					1997				
	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Totals	
ASSETS										
Current assets:										
Cash and cash equivalents	\$ 33,845	\$ 42,326	\$ 88,336	\$ 47,871	\$ 212,378	\$ 33,298	\$ 29,264	\$ 119,521	\$ 182,083	
Short-term investments	0	40,084	161,289	0	201,373	2,500	14,382	188,521	205,403	
Receivables:										
Accounts	1,493	3,607	4,822	0	9,922	1,402	1,346	2,737	5,485	
Interest	464	7,551	13,894	173	22,082	936	7,187	13,779	21,902	
First mortgage loans	331	10,433	13,024	0	23,788	339	10,571	12,730	23,640	
Due from other funds	0	0	0	0	0	214	0	0	214	
Due from federal government	0	0	0	0	0	108	0	0	108	
Total current assets	36,133	104,001	281,365	48,044	469,543	38,797	62,750	337,288	438,835	
Other assets:										
Long-term investments	23,166	143,710	281,658	0	448,534	49,664	155,020	214,425	419,109	
First mortgage loans receivable	3,295	432,952	743,191	0	1,179,438	3,814	477,038	746,031	1,226,883	
Deferred charges	4	622	2,099	0	2,725	9	693	2,087	2,789	
Other receivables	0	0	23	0	23	0	0	24	24	
Total other assets	26,465	577,284	1,026,971	0	1,630,720	53,487	632,751	962,567	1,648,805	
Fixed assets:										
Office furniture and fixtures	570	0	0	0	570	540	0	0	540	
Less: accumulated depreciation	(410)	0	0	0	(410)	(410)	0	0	(410)	
Total fixed assets	160	0	0	0	160	130	0	0	130	
Total assets	\$ 62,758	\$ 681,285	\$ 1,308,336	\$ 48,044	\$ 2,100,423	\$ 92,414	\$ 695,501	\$ 1,299,855	\$ 2,087,770	
LIABILITIES AND EQUITY										
Liabilities:										
Current liabilities:										
Warrants payable	\$ 1,136	\$ 0	\$ 0	\$ 0	\$ 1,136	\$ 1,734	\$ 0	\$ 0	\$ 1,734	
Checks payable	0	0	2,827	0	2,827	0	0	1,924	1,924	
Accounts payable and accruals	3,039	908	2,969	0	6,916	2,667	683	1,545	4,895	
Due to primary government	0	0	0	0	0	35	0	0	35	
Interest payable	0	17,440	28,279	155	45,874	0	18,261	34,595	52,856	
Escrow deposits payable	75	16,374	8	0	16,457	11	15,640	8	15,659	
Prepayments on mortgage loans	0	397	901	0	1,298	0	433	830	1,263	
Notes payable	0	0	0	47,755	47,755	0	0	0	0	
Deferred revenue	492	20	780	0	1,292	0	22	956	978	
Due to other funds	0	0	0	0	0	0	214	0	214	
Bonds payable	0	19,505	221,410	0	240,915	0	13,635	210,950	224,585	
Total current liabilities	4,742	54,644	257,174	47,910	364,470	4,447	48,888	250,808	304,143	
Noncurrent liabilities:										
Bonds payable	0	555,590	880,980	0	1,436,570	0	587,120	926,372	1,513,492	
Less: Unamortized bond discount	0	(3,178)	(6,625)	0	(9,803)	0	(3,541)	(7,288)	(10,829)	
Unamortized bond refunding costs	0	(177)	(4,550)	0	(4,727)	0	0	(1,272)	(1,272)	
Total noncurrent liabilities	0	552,235	869,805	0	1,422,040	0	583,579	917,812	1,501,391	
Total liabilities	4,742	606,879	1,126,979	47,910	1,786,510	4,447	632,467	1,168,620	1,805,534	
Equity:										
Contributed capital	2,500	0	0	0	2,500	2,500	0	0	2,500	
Retained earnings:										
Reserved - HOUSE Program	28,813	0	0	0	28,813	20,742	0	0	20,742	
Reserved - Mortgage Finance Program Bonds	0	33,399	0	0	33,399	0	24,488	0	24,488	
Reserved - Homebuyers Revolving Loan Program	240	0	0	0	240	177	0	0	177	
Reserved - primary government	0	0	0	0	0	43,000	0	0	43,000	
Unreserved	26,463	41,007	181,357	134	248,961	21,548	38,546	131,235	191,329	
Total retained earnings	55,516	74,406	181,357	134	311,413	85,467	63,034	131,235	279,736	
Total equity	58,016	74,406	181,357	134	313,913	87,967	63,034	131,235	282,236	
Total liabilities and equity	\$ 62,758	\$ 681,285	\$ 1,308,336	\$ 48,044	\$ 2,100,423	\$ 92,414	\$ 695,501	\$ 1,299,855	\$ 2,087,770	

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS
FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997
(Expressed in Thousands)

	1998					1997				
	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Single Family Mortgage Notes	Totals	Operating Group	Mortgage Finance Program	Home- ownership Program Bonds	Totals	
OPERATING REVENUES										
Mortgage interest income	\$ 239	\$ 34,111	\$ 60,861	\$ 0	\$ 95,211	\$ 273	\$ 37,352	\$ 62,768	\$ 100,393	
Investment income:										
Interest	5,743	11,296	28,993	1,324	47,356	5,235	10,275	28,515	44,025	
Net increase in the fair value of investments	1,357	3,657	14,913	0	19,927	0	0	0	0	
Fees and other income	791	133	2	0	926	729	83	1	813	
Total operating revenues	8,130	49,197	104,769	1,324	163,420	6,237	47,710	91,284	145,231	
OPERATING EXPENSES										
Salaries and benefits	3,030	0	0	0	3,030	2,667	0	0	2,667	
Contractual services	666	0	0	0	666	686	0	0	686	
Materials and supplies	72	0	0	0	72	97	0	0	97	
Rentals and insurance	298	0	0	0	298	352	0	0	352	
Other administrative expenses	121	0	0	0	121	84	0	0	84	
Other program expenses	14	245	152	0	411	2	146	412	560	
Interest expense	0	35,549	69,266	1,190	106,005	0	36,844	70,123	106,967	
Mortgage service fees	4	1,571	2,816	0	4,391	5	1,690	2,793	4,488	
Issuance costs	0	41	234	68	343	0	42	121	163	
Depreciation	66	0	0	0	66	98	0	0	98	
Total operating expenses	4,271	37,406	72,468	1,258	115,403	3,991	38,722	73,449	116,162	
Operating income	3,859	11,791	32,301	66	48,017	2,246	8,988	17,835	29,069	
NONOPERATING REVENUES (EXPENSES)										
Federal grants revenue	42,728	0	0	0	42,728	39,178	0	0	39,178	
Gain on sale of investments	0	0	0	0	0	0	0	124	124	
Interdepartmental tax revenue	16,277	0	0	0	16,277	14,182	0	0	14,182	
Federal grants expenses	(42,728)	0	0	0	(42,728)	(39,178)	0	0	(39,178)	
Local grants expenses	(7,615)	0	0	0	(7,615)	(9,452)	0	0	(9,452)	
Total nonoperating revenues (expenses)	8,662	0	0	0	8,662	4,730	0	124	4,854	
Income before transfer and extraordinary loss	12,521	11,791	32,301	66	56,679	6,976	8,988	17,959	33,923	
Transfer (to) from other funds	200	(268)	0	68	0	219	(219)	0	0	
Operating transfer to primary government	(43,000)	0	0	0	(43,000)	0	0	0	0	
Income before extraordinary loss	(30,279)	11,523	32,301	134	13,679	7,195	8,769	17,959	33,923	
Extraordinary loss on early retirement of debt	0	(4)	(115)	0	(119)	0	(10)	(155)	(165)	
Net income	(30,279)	11,519	32,186	134	13,560	7,195	8,759	17,804	33,758	
Retained earnings, July 1	85,467	63,034	131,235	0	279,736	78,272	54,275	113,431	245,978	
Cumulative effect of a change in accounting principle	328	(147)	17,936	0	18,117	0	0	0	0	
Retained earnings, July 1, as restated	85,795	62,887	149,171	0	297,853	78,272	54,275	113,431	245,978	
Retained earnings, June 30	\$ 55,516	\$ 74,406	\$ 181,357	\$ 134	\$ 311,413	\$ 85,467	\$ 63,034	\$ 131,235	\$ 279,736	

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 1998, AND JUNE 30, 1997
(Expressed in Thousands)

	1998					1997				
	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Single Family Mortgage Notes	Totals	Operating Group	Mortgage Finance Program	Home-ownership Program Bonds	Totals	
Cash flows from operating activities:										
Operating income	\$ 3,859	\$ 11,791	\$ 32,301	\$ 66	\$ 48,017	\$ 2,246	\$ 8,988	\$ 17,835	\$ 29,069	
Adjustments to reconcile operating income to net cash provided (used) by operating activities:										
Depreciation and amortization	79	39	58	0	176	98	41	(56)	83	
Changes in assets and liabilities:										
(Increase) decrease in accounts receivable	(91)	(2,261)	(2,085)	0	(4,437)	(253)	(536)	(1,277)	(2,066)	
(Increase) decrease in interest receivable	3	195	807	0	1,005	3	(632)	(365)	(994)	
(Increase) decrease in first mortgage loans receivable	527	44,224	2,546	0	47,297	518	26,102	(24,013)	2,607	
(Increase) decrease in due from federal government	108	0	0	0	108	321	0	0	321	
(Increase) decrease in deferred charges	5	0	0	0	5	(7)	0	0	(7)	
(Increase) decrease in other receivables	0	0	1	0	1	0	0	0	0	
(Increase) decrease in interfund receivables	214	0	0	0	214	(214)	0	0	(214)	
Increase (decrease) in interfund payables	0	(214)	0	0	(214)	0	214	0	214	
Increase (decrease) in warrants payable	(598)	0	0	0	(598)	869	(18)	0	851	
Increase (decrease) in accounts payable	436	694	(414)	0	716	(584)	5,076	265	4,757	
Increase (decrease) in due to primary government	(35)	0	0	0	(35)	31	0	0	31	
Increase (decrease) in deferred revenue	492	0	0	0	492	0	0	0	0	
Investment income included as operating revenue	(7,100)	(14,953)	(43,906)	(1,324)	(67,283)	(5,235)	(10,275)	(28,515)	(44,025)	
Interest expense included as operating expense	0	35,549	69,266	1,190	106,005	0	36,844	70,123	106,967	
Total adjustments	(5,960)	63,273	26,273	(134)	83,452	(4,453)	56,816	16,162	68,525	
Net cash provided (used) by operating activities	(2,101)	75,064	58,574	(68)	131,469	(2,207)	65,804	33,997	97,594	
Cash flows from non-capital financing activities:										
Operating grants received	42,728	0	0	0	42,728	39,178	0	0	39,178	
Operating transfers in (out)	200	(268)	0	68	0	219	(219)	0	0	
Operating transfer to primary government	(43,000)	0	0	0	(43,000)	0	0	0	0	
Taxes received	16,277	0	0	0	16,277	14,182	0	0	14,182	
Negative cash balance implicitly financed	0	0	903	0	903	0	(875)	(738)	(1,613)	
Proceeds from sale of bonds	0	0	304,547	0	304,547	0	0	221,864	221,864	
Proceeds from issuance of notes	0	0	0	47,755	47,755	0	0	0	0	
Operating grants paid	(50,343)	0	0	0	(50,343)	(48,630)	0	0	(48,630)	
Cost of issuance paid	0	0	(481)	(68)	(549)	0	0	(543)	(543)	
Principal payments	0	(25,660)	(346,190)	0	(371,850)	0	(4,810)	(130,685)	(135,495)	
Interest paid	0	(36,158)	(71,366)	(967)	(108,491)	0	(41,124)	(63,176)	(104,300)	
Net cash provided (used) by non-capital financing activities	(34,138)	(62,086)	(112,587)	46,788	(162,023)	4,949	(47,028)	26,722	(15,357)	
Cash flows from capital and related financing activities:							0			
Acquisition of fixed assets	(109)	0	0	0	(109)	(44)	0	0	(44)	
Net cash used by capital and related financing activities	(109)	0	0	0	(109)	(44)	0	0	(44)	
Cash flows from investing activities:										
Proceeds from sales and maturities of investments	30,683	243,920	865,301	0	1,139,904	9,800	102,386	561,267	673,453	
Purchases of investments	0	(254,802)	(872,453)	0	(1,127,255)	(10,844)	(131,274)	(621,309)	(763,427)	
Investment interest received	6,212	10,966	29,980	1,151	48,309	5,262	9,770	27,255	42,287	
Net cash provided (used) by investing activities	36,895	84	22,828	1,151	60,958	4,218	(19,118)	(32,787)	(47,687)	
Net Increase (decrease) in cash and cash equivalents	547	13,062	(31,185)	47,871	30,295	6,916	(342)	27,932	34,506	
Cash and cash equivalents, July 1	33,298	29,264	119,521	0	182,083	26,382	29,606	91,589	147,577	
Cash and cash equivalents, June 30	\$ 33,845	\$ 42,326	\$ 88,336	\$ 47,871	\$ 212,378	\$ 33,298	\$ 29,264	\$ 119,521	\$ 182,083	
Noncash investing, capital, and financing activities:										
Disposition of fixed assets	\$ 39	\$ 0	\$ 0	\$ 0	\$ 39	\$ 100	\$ 0	\$ 0	\$ 100	
Accretion of deep discount bonds	0	0	5,365	0	5,365	0	0	2,160	2,160	
Total noncash investing, capital, and financing activities	\$ 39	\$ 0	\$ 5,365	\$ 0	\$ 5,404	\$ 100	\$ 0	\$ 2,160	\$ 2,260	

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY BALANCE SHEET - OPERATING GROUP
JUNE 30, 1998
(Expressed in Thousands)

	Assets Fund	Housing Program Fund	Operating Group Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,189	\$ 30,656	\$ 33,845
Receivables:			
Accounts	1	1,492	1,493
Interest	464	0	464
First mortgage loans	265	66	331
Due from other funds	0	446	446
Total current assets	3,919	32,660	36,579
Other assets:			
Long-term investments	23,166	0	23,166
First mortgage loans receivable	2,174	1,121	3,295
Deferred charges	0	4	4
Total other assets	25,340	1,125	26,465
Fixed assets:			
Office furniture and fixtures	0	570	570
Less: accumulated depreciation	0	(410)	(410)
Total fixed assets	0	160	160
Total assets	\$ 29,259	\$ 33,945	\$ 63,204
LIABILITIES AND EQUITY			
Liabilities:			
Warrants payable	\$ 0	\$ 1,136	\$ 1,136
Accounts payable and accruals	0	3,039	3,039
Deferred revenue	0	492	492
Escrow deposits payable	0	75	75
Due to other funds	446	0	446
Total liabilities	446	4,742	5,188
Equity:			
Contributed capital	0	2,500	2,500
Retained earnings:			
Reserved - HOUSE Program	28,813	0	28,813
Reserved - Homebuyers Revolving Loan Program	0	240	240
Unreserved	0	26,463	26,463
		0	
Total retained earnings	28,813	26,703	55,516
Total equity	28,813	29,203	58,016
Total liabilities and equity	\$ 29,259	\$ 33,945	\$ 63,204

TENNESSEE HOUSING DEVELOPMENT AGENCY
SUPPLEMENTARY BALANCE SHEET - MORTGAGE FINANCE PROGRAM
JUNE 30, 1998
(Expressed in Thousands)

	Mortgage Finance Bond	General Fund	Mortgage Finance Bond Group Total*	Escrow Fund**	Mortgage Finance Program Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 37,869	\$ 2,927	\$ 40,796	\$ 1,565	\$ 42,361
Short-term investments	30,550	1,366	31,916	8,168	40,084
Receivables:					
Accounts	3,607	0	3,607	0	3,607
Interest	6,730	633	7,363	188	7,551
First mortgage loans	10,433	0	10,433	0	10,433
Total current assets	89,189	4,926	94,115	9,921	104,036
Other assets:					
Long-term investments	101,124	36,493	137,617	6,093	143,710
First mortgage loans receivable	432,952	0	432,952	0	432,952
Deferred charges	622	0	622	0	622
Total other assets	534,698	36,493	571,191	6,093	577,284
Total assets	\$ 623,887	\$ 41,419	\$ 665,306	\$ 16,014	\$ 681,320
LIABILITIES AND EQUITY					
Liabilities:					
Current liabilities:					
Checks payable	\$ 0	\$ 0	\$ 0	\$ 35	\$ 35
Accounts payable and accruals	891	17	908	0	908
Interest payable	17,440	0	17,440	0	17,440
Escrow deposits payable	0	351	351	16,023	16,374
Prepayments on mortgage loans	397	0	397	0	397
Deferred revenue	20	0	20	0	20
Bonds payable	19,505	0	19,505	0	19,505
Total current liabilities	38,253	368	38,621	16,058	54,679
Noncurrent liabilities:					
Bonds payable	555,590	0	555,590	0	555,590
Less: Unamortized bond discount	(3,178)	0	(3,178)	0	(3,178)
Unamortized bond refunding costs	(177)	0	(177)	0	(177)
Total noncurrent liabilities	552,235	0	552,235	0	552,235
Total liabilities	590,488	368	590,856	16,058	606,914
Equity:					
Retained earnings:					
Reserved - Mortgage Finance Program Bonds	33,399	0	33,399	0	33,399
Unreserved	0	41,051	41,051	(44)	41,007
Total retained earnings	33,399	41,051	74,450	(44)	74,406
Total equity	33,399	41,051	74,450	(44)	74,406
Total liabilities and equity	\$ 623,887	\$ 41,419	\$ 665,306	\$ 16,014	\$ 681,320

* The Mortgage Finance Bond Group Total represents the funds pledged to the Mortgage Finance Program Resolution.

** The Escrow Funds can only be used for escrow payments.